

Australian Pork Limited

AUSTRALIAN
Pork®

ANNUAL OPERATING PLAN 2020-21



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A transformative plan

The 2020-21 year is set to be a transformative one both inside and outside APL.

From an external perspective there is a high degree of uncertainty. Either one of the dual pandemics of African swine fever across the pig world and COVID-19 across the human world would have been the single biggest disruption to global meat markets in most Australians' lifetimes. The opportunities for APL to support government efforts for all Australians on both fronts have never been more compelling.

From an internal perspective, this financial year is the first of our "progressive pork organisation" strategy. The opportunities to build on strengths, improve our industry engagement, energise our people, and take on a more disruptive mindset have already been encapsulated in a new way of structuring the organisation.

We already had an impressive portfolio of people and corporate knowledge. By creating new connections and focussing everyone on APL's new strategic goals, we plan to unleash additional creativity and accelerate industry performance.

In order to remain agile as the external environment evolves, we plan to review operations every quarter to ensure that our settings are consistent with the environment. Where the way forward is clear regardless of the environment, we are setting out with aggressive targets.

Key areas for specific progress include:

- implementing the ASF Readiness plan
- communicating more personally with producers
- adopting a sustainability framework to manage industry positions
- marshalling industry knowledge into more accessible tools and
- keeping pork on people's forks wherever they are able to eat.

These more immediate priorities are all consistent with making progress on our 2020-2025 strategy roadmap.

WE PLAN TO UNLEASH
ADDITIONAL CREATIVITY AND
ACCELERATE INDUSTRY
PERFORMANCE

Underlying assumptions

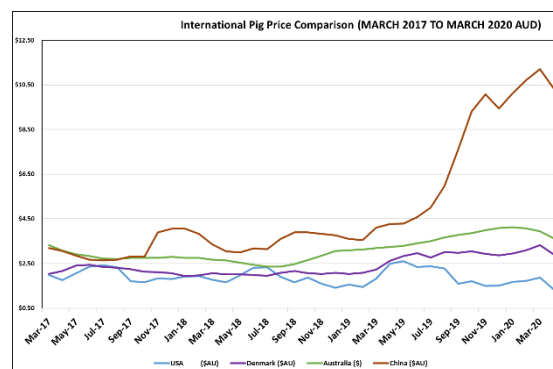
The operating environment for every industry in the 2020-21 financial year is volatile. Whilst the need to remain as agile as possible will be a requirement, there are some underlying assumptions on which this Annual Operating Plan is based.

In terms of global context there are two uncertainties in global pork. The rate at which different countries emerge from the COVID-19 pandemic and the rate at which African swine fever (ASF) continues to spread through Asia, Europe, and the Pacific Islands.

The impact of COVID-19 on Australian pork is primarily driven by domestic concerns. The rate at which the hospitality and tourism industries recover will be important to carcass balance and hence value chain profitability. There will be markets such as foreign tourist-reliant channels that take longer to recover than others. However, if the Australian governments impressive handling of the pandemic continues, Australia will possibly become a more attractive source of fresh farmed products, both domestically and internationally.

African swine fever will remain the single biggest priority for the Australian pork industry this year. From a threat mitigation perspective, we have an industry ASF management plan.

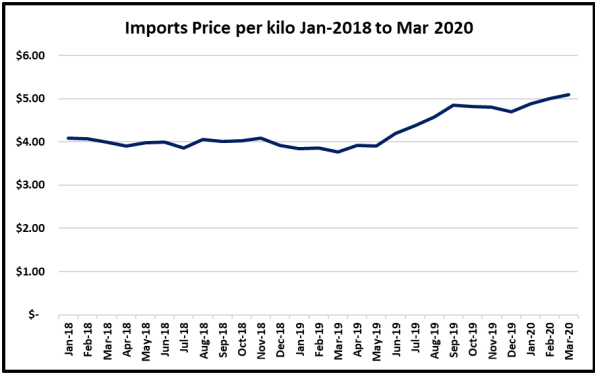
From an opportunity perspective, globally there is an undersupply of pork which represents additional sources of demand, *if* we can find ways to convert them into customers.



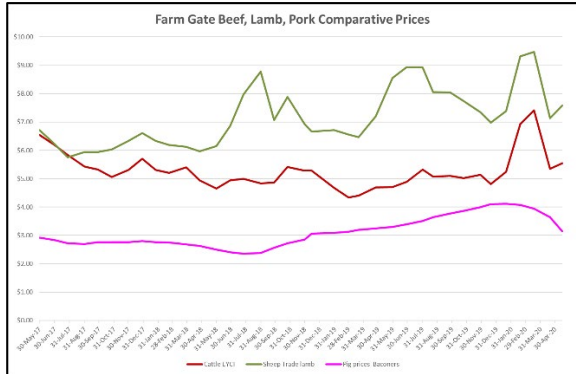
Graph 1: Selected International pig prices of selected countries in Australian dollars.

This is also reflected in imported pork prices increasing by 25 per cent which with the Australian dollar depreciation only accounting for around five per cent of that 25 per cent.

IN TERMS OF GLOBAL CONTEXT THERE ARE TWO UNCERTAINTIES IN GLOBAL PORK



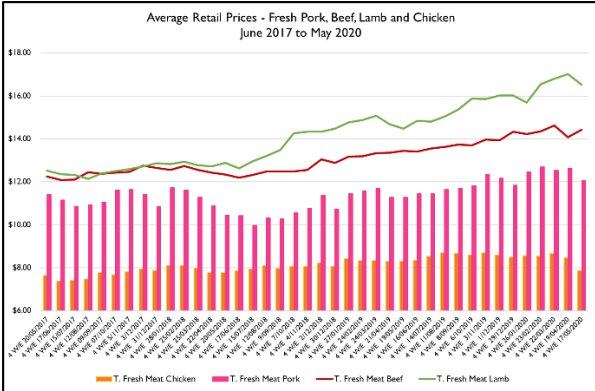
Graph 2: Imported pig meat prices - Average in Australian dollars.



Graph 5: Australian Farm Gate Species Prices per kg in dollars

From a competitive perspective, chicken remains significantly cheaper than all other proteins at retail. However, drought has caused both the cattle herd and the sheep/lamb flock to be small by historic standards. The 2020 autumn rains are causing re-stocking which has meant beef and lamb prices at retail have been climbing for some time. Both tend to have slow but sustained market responses to changes in supply.

COVID-19 does still represent a threat to meat processing and pig care on-farm. So far, it appears Australia's ability to identify local outbreaks, isolate them and quickly trace likely contacts is likely to enable industry continuity, provided we remain vigilant. From an international perspective, the infection of meat processing workers in the USA damaged production capacity for pork in April & May 2020 and further outbreaks either there or in South America may also reduce global supply in 2020-21.

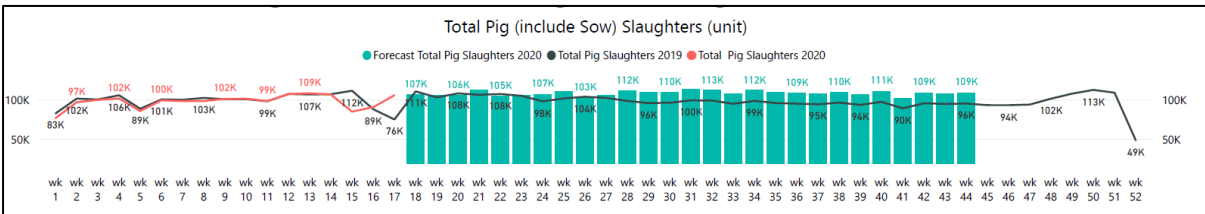


Graph 3: Australian Retail Species Prices per kg in dollars

From an Australian supply outlook, the latest estimate based on feedback from the people caring for more than 75 per cent of pigs, it appears that Australian pork supply will grow by 13.3 per cent in the July to October 2020 period. This is rapid growth for our industry, and we will provide additional demand making activities as required.

Lamb farm gate prices have continued to rise suggesting pork growth due to relative value for money is possible.

The graph below highlights weekly forecasts, based on producers who care for over 75 per cent of pigs produced responses to the February 2020 survey (the forecasts are the turquoise columns).



Graph 4: Weekly pig slaughter forecasts

Solutions and horizons

Whilst Australia and Australian pork producers are going to be operating in uncertain times, the approach we take to investment will remain driven by the fundamentals or the global food system.

Whilst this is being disrupted at present, continuing to focus on consumers and customers, keeping our country safe from diseases and helping connect Australian pork producers with new technologies and educated consumers will enable both Australia and Australian pork to thrive.

Our investment process is outcome driven. These outcomes are generally multiple in nature. An example is the “Get some pork on your fork” versatility advertising; there is a sales benefit to producers and a “enjoyment of variety” benefit to consumers and government. Likewise, we have producers who utilise thousands of tonnes of food waste which benefits the environment; this also reduces their feed costs which enables further investment or improved affordability to consumers.

APL invests in both disruptive and continuous improvement opportunities. These investments often complement relevant national and cross-sectoral initiatives.

“Industry solutions” are typically improvement opportunities – short-term projects which will deliver relatively immediately observable outcomes. Industry solution projects may be either pro-active or responsive. Typically, the risk of not achieving project outcomes for solutions projects is low.

“Horizon projects” are typically more disruptive – medium to long term projects. These target outcomes that are more transformative and significant in terms of the total value added to the industry. These may take multiple years to complete and are likely to deliver observable industry outcomes some years after the project has been completed.

Our investments integrate the triple bottom line objectives of economic, environmental, and social responsibility. Investments are planned to spread 30 per cent of the long run investment budget towards what is currently being referred to as “industry solutions” and 70 per cent towards “horizon projects”.

OUR INVESTMENTS
INTEGRATE THE TRIPLE
BOTTOM LINE OBJECTIVES OF
ECONOMIC, ENVIRONMENTAL,
AND SOCIAL RESPONSIBILITY

APL's systems enable the portfolio of investments to be classified by various dimensions including:

- government research priorities
- theme objectives
- project length
- levels of risk and return.

The Board has established the Investment Committee to assist in prioritising and recommending specific Horizon investments to the Board for funding.

Elected Delegates representing Australian pork producers communicate the contemporary views of the Australian pork production industry to APL at least twice per annum.

APL management and APL committees, including subject matter experts, consider the views of industry when identifying and evaluating projects.

If proposed projects are supported by the relevant committee, they are recommended to the Board for endorsement and funding.

An overview of our five strategic themes

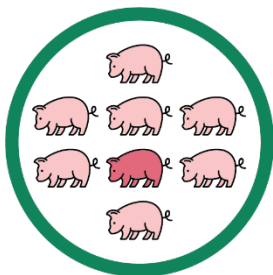
APL will continue to contribute to the delivery of a thriving pork industry by focusing on five strategic themes:

- Market and product differentiation
Building a broader portfolio of points of difference that are more valuable to some customers than other competing products or services.
- Manage volatility for viable farms
The uncertainty that goes with all markets is particularly intense with agriculture. Booms and busts. This theme is about flattening those extremes.
- Drive consumer demand
Understanding what the consumer wants and providing that in a better way than our competitors, at a price the consumer is prepared to pay will continue to be one of our central roles.
- Leading community social licence
Often societal permission holds organisations to a higher standard than the law. This strategy is aiming higher than both.
- Building industry shared vision.
This involves creating dialogues with each APL member and finding value that they can add to the industry as well as finding value that APL can add to their business.

As described in APL's Strategic Plan 2020-25, these themes have been developed to ensure strategic alignment with the national and rural R&D priorities and maximise collaboration with RDCs and the broader agriculture sector.

The focus for the first year of the 2020-25 strategic plan will be biosecurity (particularly industry engagement regarding the ASF readiness plan), bolstering our R&D plan in the areas of "eating experience", "Biosecurity leadership" and "Cost of production and processing", knowledge management and producer engagement, market testing and clarification of the eating experience.

THESE THEMES HAVE BEEN DEVELOPED TO ENSURE STRATEGIC ALIGNMENT WITH R&D PRIORITIES AND MAXIMISE COLLABORATION WITH THE BROADER AGRICULTURE SECTOR



Market and product differentiation

Diversity of markets and products

The core focus for this year will be to do the desk research and networking to connect APL with the broader R&D and innovation community, both in Australia and internationally. If necessary, primary research may occur to identify valuable markets, products or categories that represent currently untapped opportunities for Australian pork. It is anticipated that these findings will be explored and commercialised in subsequent years.

Quality consumer eating experiences

The latest consumer research identifies that 83 per cent of pork meals cooked at home are successes. The first initiative in this program is to increase the proportion of those meals that are successes. This has already begun with most abattoirs piloting additional measurements to improve control and consistency of carcasses as well as improving yield. It is planned that the results of these pilots will be implemented in 2020-21, which will enable the first phase of improvement to occur.

Whilst phase one is in implementation, phase two, which targets creating “remarkable” (so good they are worth talking about) eating experiences, will commence.

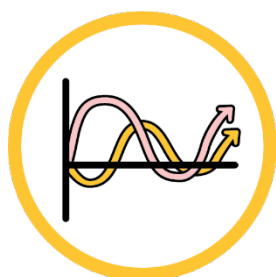
Valuable provenance of Australian

The value of “Australian pork” in ham and bacon was trialled in Adelaide in February & March 2020. The experiment needed to be postponed due to the confounding changes in shopper behaviour in March/April 2020. Identifying those associations that are attractive to consumers is relatively straightforward.

Creating noticeable differences that are valuable (i.e. worth paying for) and are unique to Australian pork has proven challenging. It is likely to be focused in how consumers feel, rather than observable product differences and this is where this program will focus our discovery efforts. We intend to continue collaborating with willing partners, both retailers and brand owners.

In addition, opportunities exist to “lock in” leadership positions such as the voluntary withdrawal of gestation stalls and use these in international trade to benefit Australian producers.

WE INTEND TO CONTINUE
COLLABORATING WITH
WILLING PARTNERS IN BOTH
RETAIL AND BRAND
OWNERSHIP



Manage volatility for viable farms

Timely relevant through-the-chain information

Part of this program is to maintain the integrity of the data and reports we provide weekly to producers and other stakeholders. We plan to continue to migrate our regularly reported data into our business intelligence tool to help us report more securely and efficiently.

In addition to this we plan to reconfigure the main Australian Pork Limited website in ways that will help producers access their data. As part of that, we will restructure what APL knows into a form of knowledge management system. This will enable both APL team members, producers and external stakeholders to find information quickly and easily.

A third part to this program includes working with data holders outside of APL, in order to identify areas where we can collaborate for mutual benefit.

Reduce cost of production

The quote attributed to Einstein – “insanity is doing the same thing over and over again and expecting a different result” – will guide us. In order to progress in this area,

we will take a different approach to cost reduction. This will be set via a design-led thinking workshop early in the financial year. However, conceptually we plan to come at cost reduction through a variety of new directions that may include cost forecasting and avoidance, people and culture change or alternate methods of processing ingredients.

Diversified pig business extension opportunities

Industry history has taught us that when producers have strong balance sheets and then markets transpire to drive their profitability to higher than average levels, many producers invest in making more volume. However, it is also possible that businesses growing in profitability can invest in cost reduction, price realisation, sales mix, vertical integration up or down the value chain, or geographical spread (amongst many others). This program will create solid business options for the future consideration of producers. The activity in this program will be primarily personal networking and idea gathering both inside and outside our industry.



Drive consumer demand

Production is forecast to grow during 2020-21. As a consequence, the “Get Some Pork on your Fork” (GSPOYF) activity will be funded from both “Maintain domestic fresh demand” and “Grow domestic demand”. For simplicity in reading, GSPOYF will be described in the former and “Differentiation” activity will be described in the latter.

Maintain domestic fresh demand

GSPOYF activity includes direct consumer communication and collaboration via mutually agreed plans with retailers and supply chains. It seeks to influence both perceptions and behaviours of Australians to demand fresh Australian pork for consumption both in-home and out-of-home. This year will see increased investment in demand creation as production is forecast to grow. In addition, with possibly more meals being consumed in-home, activity will be targeted at those consumers whose conversion from consideration to purchase offers the largest opportunity to increase volume sales.

Grow domestic demand

APL had to interrupt our trial of educating South Australians that “the majority of ham is imported” targeting growth of Australian pork in the ham category. The experiment needed to be postponed due to the

confounding changes in shopper behaviour in March/April 2020. The AOP includes provision for the entirety of the test to be rerun in order to establish repeatable benchmarks to decide whether to replicate the trial in each state and territory either in turn or as a national initiative.

Grow targeted international demand

International business development is an opportunity in 2020-21. There is a global under-supply of fresh pork, driven by the spread of ASF across Asia and Europe. There also appears to be disruption in processing pork in some major exporting countries such as USA & potentially Brazil.

The industry international strategy development agreement has focused on four countries: Singapore, Hong Kong, Japan and Vietnam. These will be pursued aggressively.

WE SEEK TO INFLUENCE BOTH PERCEPTIONS AND BEHAVIOURS OF AUSTRALIANS TO DEMAND FRESH AUSTRALIAN PORK FOR CONSUMPTION BOTH IN-HOME AND OUT-OF-HOME.



Leading community social licence

Leaders in animal care

Governmental priorities changed in 2017 which meant a delay to the scheduled review of the Standards and Guidelines for pig production. As the Australian Pork industry had voluntarily voted to remove gestation stalls in 2010, the industry decided to proactively move towards agreeing new Standards and Guidelines. It seems that 2020-2021 is the year that the Standards and Guidelines will be reviewed. Legislating the voluntary removal of gestation stalls will be the focus of this program this year.

Biosecurity leadership

African swine fever will remain the single biggest priority for the Australian Pork industry this year.

To mitigate this threat, we have an industry ASF management plan that incorporates additional government measures at borders, education in abattoirs and guidelines for Australian pork producers.

The plan includes recommendations from all parties, has identified research priorities to fill any gaps that exist and a Federally funded ASF Industry Liaison position to focus on further strengthening the connection between government and producer action progress.

APL will keep biosecurity central to the Australian pork industry's progress for years to come through data-driven research and development into "pushing back the borders", creating surveillance testing for common pathogens, intensifying our producer interactions for ASF on-farm biosecurity plans and finding ways to make our industry's antimicrobial stewardship even better than it currently is.

AFRICAN SWINE FEVER WILL REMAIN THE SINGLE BIGGEST PRIORITY FOR THE AUSTRALIAN PORK INDUSTRY THIS YEAR

Climate friendly farming

Despite COVID-19 delays to many R&D programs, there are two major activity streams in this area.

The R&D stream is testing new technologies to recover on-farm water and to process manure on-farm into manure and possibly in the future into a feed source.

Pig production is perceived by Australians as being more environmentally responsible than any other animal production industry. Also, “environmentally responsible” is the fastest growing “most important factor” in APL’s social licence tracker.

Our social licence research was conducted in September 2019, before the bushfires of last summer, so “environmentally responsible” is likely to be the “most important factor” for a larger number of people than before.

The second stream is to take technologies that are already available and implemented on some properties – such as biogas and industrial food-waste recycling – and applying them to as many additional properties as possible.

Industry Visibility

The new Australian pork website is a major initiative in this arena. In addition, COVID-19 delayed the virtual reality pig tour, which is now set to be completed and leveraged in 2020-21.



Building industry shared vision

Producer Relations (Shared Values)

The major activity in producer relations is the creation of a centralised team within APL to offer improved and more extensive customer service to producers. The team is designed to become multi-skilled, meaning that there are multiple people able to engage on topics including APIQ✓®, PigPass, pig and wholesale price reporting, volume of production outlooks (feedback from producers) and importantly, the transfer of R&D outcomes and opportunities.

The producer relations team will work closely with another new specialist team, the communications team. This team will not only produce APL's regular communication outputs (such as email newsletters) but will also be the primary point of contact for media enquiries, events, publications, and social media engagement.

Technology Adoption

This will continue to be collaboration between the R&D Program Managers and our Technology Transfer and Industry Capability Manager. The latter sits in the producer relations team, and over time, that team will build responsibility for measuring R&D adoption, a critical measure to improvement. For this year, communicating R&D outcomes will be more personalised through conversations between producers and the producer relations team

Organisational effectiveness

The major activity in this area is that APL will be re-structured starting from July 2020. The goals of this restructure are to drive focus and to harness the broad array of capabilities inside APL to work together on the outcomes that are important to industry.



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